



Management Discussion and Analysis

RESULTS

For the year ended 31 December 2006, the Group's turnover amounted to approximately HK\$126.1 million, comparing to HK\$41.2 million reported in the preceding year. It was an increase of approximately 206%. Gross loss from operation was approximately HK\$0.4 million, comparing to a gross profit of HK\$5.1 million in the last year. Loss attributable to the shareholders for the year was HK\$326.8 million, compared to loss of HK\$78.7 million in year 2005, representing an increase of 315%. The loss was mainly due to the written off of an investment property in Jinan City of the People's Republic of China.

BUSINESS REVIEW

Property Leasing Business

The Jinan Property

The Jinan Property owned by Grand Noble Group Limited ("Grand Noble"), an indirectly wholly owned subsidiary of the Company, which is situated at the various portions of Level 1 to 4, Qi Lu International Mansion, No. 180 Quancheng Road, Lixia District, Jinan City, Shandong Province, the People's Republic of China was granted by the Qingdao Intermediate People's Court to Shandong Laigang Construction Company Limited ("Shandong Laigang"), a creditor of Grand Noble, on 11 July 2006 to satisfy a debt allegedly owed by Grand Noble to Shandong Laigang. Relevant chronological details are set out below.

The Group sold the entire issued share capital of Grand Noble to True Honest Limited pursuant to an agreement dated 10 October 2004. The consideration of HK\$270 million was to be satisfied by payment to the Group of HK\$20 million in cash and the issue of a promissory note pursuant to which True Honest Limited agreed to pay HK\$250 million to the Group on the day falling 6 months after the date of completion of the transfer of Grand Noble. Details of the disposal of Grand Noble were set out in the Company's announcement dated 19 October 2004. Subsequently, True Honest Limited requested an extension of time for payment under the promissory note and the Company agreed to an extension to 29 June 2005. Details are set out in the Company's announcement dated 13 June 2005. True Honest Limited defaulted in making payment under the promissory note by the expiry of such extended deadline. As a result, the Company took steps to enforce the share charge securing payment under the promissory note and to resume ownership of Grand Noble. Details are set out in the Company's announcement dated 29 June 2005. On 4 August 2005, the Company announced that it had in July 2005 complete the procedure for resuming ownership of Grand Noble and that Grand Noble had become a subsidiary of the Company once again.

None of the current members of the Board was involved in the disposal and/or resumption of Grand Noble as mentioned above. Four of them joined the Board on 8 June 2006, one of them joined on 12 June 2006 and the other joined on 19 April 2007. Since their appointment, the Directors have been carrying out an assessment of the Group's assets and business. The legal adviser as to the PRC Laws appointed by the Board to assist it with such assessment exercise ("PRC Lawyer") informed the Board that the Jinan Property would be put up for auction on 7 July 2006 and this prompt the Company to request suspension of trading in its Shares on 4 July 2006. The PRC Lawyer has also

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advised the Company that the Jinan Property owned by Grand Noble has been subject to various protection orders granted by the Qingdao Court and the Jinan Intermediate People's Court (collectively, the "PRC Court") to secure certain sums allegedly due to Shandong Laigang and that it had been put up for auction twice before but had remained unsold. The first and second auctions were held well before the appointment of the current Board.

The PRC Lawyer has further advised the Company that, according to the records of the Qingdao Court, on 13 January 2005 (which is after the disposal of Grand Noble by the Group in 2004 and before the Group resumed its ownership in Grand Noble in 2005) the then sole director of Grand Noble made a declaration in which Grand Noble agreed to be contingently liable to repay the sum owed to Shandong Laigang and that Grand Noble should apply to the relevant PRC Court to join itself as a defendant to the relevant proceedings.

On 25 July 2006, the PRC Lawyer provided a judgment granted by the Qingdao Court ("Judgment") on 11 July 2006 to the Shandong Laigang. It is stated in the Judgment that subsequent to the three auctions mentioned above, the reserve price of the Jinan Property at the last of the three auctions was RMB71,410,000 (approximately HK\$72,000,000). Pursuant to a written application made by Shandong Laigang to the Qingdao Court to take possession of the Jinan Property in settlement of the sum owed to it by Grand Noble. The Jinan Property was awarded to Shandong Laigang.

The Company is taking further legal advice as to the availability of any remedy the Group may have so as to recover the Jinan Property and/or the damages it has suffered.

As stated in the audited financial statements of the Company for the year ended 31 December 2006, the Jinan Property was valued at HK\$237 million as at 31 December 2005 which represents 73.0% of the audited consolidated net asset value of the Group as at 31 December 2005. The Company made a provision of HK\$237 million to write off the value to reflect the incident.

The Shanghai Property

On 23 March 2004, the Group entered into agreements to pledge the Shanghai Property to a bank in the PRC to secure for a short-term bank loan of RMB24.0 million (approximately HK\$22.9 million) granted to a third party. In return, the Group received an income of 8% per annum on the face value of the loan. During the year ended 31 December 2005, the bank loan was overdue and the Group was being demanded for repayment. The property was sequestered by a court in the PRC. As a prudent measure, a provision for the loss of HK\$22.9 million for such guarantee contract was made in year 2005.

Recently the Company was informed that further claim of unspecified amount was lodged to the Court in Shandong, the PRC. The Company is taking procedure to clarify the claims through PRC Lawyers. As a prudent measure, a further provision of HK\$12.1 million was made to write off the remaining value of the Shanghai Property to reflect the current situation.

Paper Business

Due to lack of working capital, operations of the Group's associated companies remain in suspension.



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Securities Trading Business

The Group had undertaken trading of listed shares and related products in Hong Kong. The trading activities had incurred a loss of approximately HK\$0.4 million.

Treasury and Investment Business

The directors will collaborate with professional advisors and take positive steps to assess and recover the investments of HK\$12 million made in the Heze Century Energy Coalchem Industrial Company Limited and the deposit of HK\$32.6 million placed with an asset management company in the PRC. As a prudent approach, these investments had been fully written off to reflect the uncertainty on recovery possibilities.

The Group had initiated legal actions to recover the HK\$13.8 million deposit payment made for the acquisition of the Daoqin Hospital Management Company Limited. The investment had been fully written off whilst the legal action on recovery continue.

EMPLOYEES

As at 31 December 2006, the Group employed 3 employees and the related staff cost amounted to HK\$1.2 million. Staff remuneration package are reviewed annually. The Group does not maintain a share option scheme.

BUSINESS OUTLOOK

The Group is principally engaged in property investment, treasury and investment business, securities trading, paper manufacturing and energy related business.

The Group intends to diversify into various other businesses to complement its current operations. It will continue to identify suitable investment opportunities for possible acquisitions, including those in property development, property management, real estate agency, industrial manufacturing, trading, oil and gas related businesses, utility projects, Telecommunications, IT and internet related projects.

APPRECIATION

The Board wishes to thank the staff for their continued efforts during the past year.